STATEMENT BY RON HECK
VICE PRESIDENT, AMERICAN SOYBEAN ASSOCIATION

before the

COMMITTEE ON AGRICULTURE
SUBCOMMITTEE ON CONSERVATION, CREDIT, RURAL DEVELOPMENT AND RESEARCH
U.S. HOUSE OF REPRESENTATIVES

April 25, 2001

Thank you for the opportunity to be here this afternoon. I am Ron Heck a soybean, corn and pork producer from Perry, Iowa. I am currently serving on the Executive Committee of the American Soybean Association (ASA) and a member of the Board of Directors of the National Biodiesel Board (NBB).

The reasons for this hearing are troubling for American agriculture. These are times when the prices for our commodities are at record lows and energy and other input costs are high with the threat of getting even higher over the next several months. This causes great concern across the countryside and producers are reviewing both options for reducing input costs and opportunities for increasing prices of what we grow.

While in the short term there is little we can do to completely alleviate this situation, ASA believes the development of a comprehensive national energy plan would help avoid these crisis situations in the future. We also feel strongly that a national energy plan should include a viable renewable fuels component that includes both biodiesel and ethanol.

As you know, Mr. Chairman, for the last 8-10 years U.S. soybean growers have invested in the research, development and commercialization of biodiesel. Biodiesel is a mono-alkyl ester-based oxygenated fuel. It contains no petroleum but can easily be blended with petroleum. Biodiesel is typically blended at the 20% level with diesel or at the 2% or lower levels. It can be used in compression-ignition, diesel engines with no major modifications. Biodiesel in its neat or pure form is biodegradable and nontoxic, and is the first and only alternative fuel to meet EPA's Tier I and II health effects testing standards. Biodiesel is renewable and domestically produced from agricultural resources, namely soybean oil.

Biodiesel has many environmental and operational benefits. With the Chairman's permission, I will include materials regarding the environmental benefits of biodiesel for the record. However, I would like to highlight the fuel's lubricity benefits. Even at very low blends biodiesel contributes operational and maintenance benefits to diesel engines, this is even more significant when using ultra-low sulfur diesel.

Last May, EPA proposed a reduction in sulfur content of highway diesel fuel of over 95% from its current level of 500 parts per million. Biodiesel has no sulfur or aromatics and tests have documented its ability to increase fuel lubricity significantly when blended with petroleum diesel fuel even at one percent or lower.

Soybean growers began to invest in biodiesel almost a decade ago not because we wanted "our own" ethanol. Instead we were driven by the economics in the soybean industry. Soybeans are widely produced for the protein source in soybean meal. It is the plant protein of choice in the pork and poultry industries, leaving soybean oil as a valuable but abundant co-product. Because of large supplies of vegetable oils in the world market, we have a surplus of soybean oil, which depresses the price of the oil and the whole soybean.

Several years ago, ASA recognized that the traditional means of riding out a depressed market by storing surplus soybean oil until better times was not going to work during this situation. The industry had to do more. It needed to be proactive and aggressive in market development. Soybean growers through our state and national check off programs began investing in the development of new uses of soybean oil. Several of the products are widely accepted in the marketplace, such as soy ink, and others are just receiving acceptance such as biodiesel, solvents, lubricants and other fluids.

While biodiesel as a fuel is relatively new to our country, it is widely accepted and utilized in Europe, where motorists consume 250 million gallons annually. Our biodiesel industry leaders have worked closely with the European industry by sharing research, performance data and consumer information. The European biodiesel industry is strongly supported by government and by agribusiness. In fact, several U.S. oilseed processors are involved in producing biodiesel in Europe.

While biodiesel offers environmental, energy security, and economic development benefits, it is not yet competitive in the U.S. on a pure cost comparison. Public support will be necessary to help the industry develop. Our culture and policies are focused on petroleum products, most of which are imported. I understand, Mr. Chairman, that you are from an oil and gas producing-state, and I certainly do not want to imply that soybean growers are opposed in anyway to the use of petroleum products. In fact, agriculture is a major user of petroleum-based products, and that is one of the major reasons for the hearing today. However, I would make the challenge that our country needs to have an aggressive energy policy that includes renewable fuels and power generation as well as significant domestic production of both oil and gas.

We are currently working with the Administration on the development of a national energy strategy that we hope will include a strong renewable fuels policy. We are also working closely with the National Corn Growers Association (NCGA) and with the ethanol industry on legislation that would establish a renewable standard for all motor fuels. This proposal would require a small percentage of renewable fuels, including ethanol and biodiesel, to be incorporated into motor fuels. The program would be flexible and user friendly with a gradual ramp up of a renewable fuel content requirement. Consumers would not even know the difference in their fuel except for the fact that the fuel will be a bit cleaner and their engines will run a little better.

While the objectives of the proposal are ambitious, we feel they are achievable and reasonable. Our organization, as well as the National Biodiesel Board, NCGA and the Renewable Fuels Association, believe this goal would help the ethanol industry reach its target of tripling consumption in 10 years and create a significant market for biodiesel.

The current biodiesel market is relatively small, but is growing rapidly. Based on a recent NBB industry survey, approximately five million gallons of biodiesel were produced in fiscal year 2000, up from approximately 500,000 the year before. Approximately 20 million gallons are expected for fiscal year 2001. One hundred million gallons of biodiesel requires 760 million pounds of feedstock including vegetable oils, recycled grease or animal fats. If only soybean oil were the feedstock used, 100 million gallons of biodiesel would reduce the current surplus of 2.1 billion pounds of soy oil by about one-third. Reducing soy oil supplies by this amount would increase the U.S. soy oil price by an estimated 1.5 cents per pound. With 11 pounds of soy oil in a bushel of soybeans, this would raise U.S. soybean prices by as much as 16.5 cents per bushel.

Mr. Chairman, even with low feedstock prices, biodiesel is not yet cost competitive with petroleum diesel. To be so, assistance with market development and tax incentives are needed. ASA is currently considering legislation that would provide a partial exemption to the diesel fuel excise tax to diesel fuel suppliers who use low blends of biodiesel. The amount of the exemption would be three cents for diesel fuel containing two percent biodiesel. This approach is similar to the partial tax exemption for ethanol, which provides a 5.4 percent exemption for gasoline that contains ten percent ethanol. Biodiesel and ethanol are complementary renewable fuels, since they are sold in separate fuel markets.

Of course, one of the first concerns with excise tax exemptions is the lost revenue to the Highway Trust Fund. We are very sensitive to the needs of the highway users. So, we are proposing to reimburse the trust fund with USDA's Commodity Credit Corporation (CCC). The cost to the CCC would be offset at least initially by the savings which increased biodiesel use would realize in the form of reduced outlays under the soybean marketing loan program.

For example, if 100 million gallons of biodiesel were used under this program, it would be blended at two percent per gallon into five billion gallons of diesel fuel. At a cost of three cents per gallon, the cost of the program would be $150 million.

Earlier in my testimony, I outlined how increasing biodiesel use would reduce soybean oil surpluses. Reduced soybean oil surpluses will result in higher soybean prices, and raising soybean prices in the marketplace would reduce CCC outlays under the soybean marketing loan program. Using a conservative 13 cents per bushel impact on price, the cost savings on this year's estimated 3.0 billion bushel soybean crop would be $390 million. The proposal will save more than two dollars for each dollar it costs.

Mr. Chairman, we think the timing is right for these policies and for a strong commitment to homegrown renewable energy. The initiatives I have outlined will help our nation's farmers by fostering markets for our surplus commodities, such as vegetable oil, and will promote domestically produced energy. We think they have merit, and we look forward to sharing the details of the proposals with you in the next few weeks.

Thank you for inviting ASA to discuss these timely and important issues with you today. Soybean producers are very concerned with the rising costs of energy and inputs, and we want to work with the Committee to develop long-term solutions to these issues.

I will be happy to answer questions at the appropriate time. Thank you.